

VZCZCXRO8057
RR RUEHDE RUEHDH
DE RUEHCV #0428/01 0921755
ZNY CCCCC ZZH
R 021755Z APR 09
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 2855
INFO RUEHHH/OPEC COLLECTIVE
RUEHAC/AMEMBASSY ASUNCION 0980
RUEHBO/AMEMBASSY BOGOTA 7965
RUEHBR/AMEMBASSY BRASILIA 6121
RUEHLP/AMEMBASSY LA PAZ 2872
RUEHPE/AMEMBASSY LIMA 1154
RUEHSP/AMEMBASSY PORT OF SPAIN 3683
RUEHQT/AMEMBASSY QUITO 2968
RUEHSG/AMEMBASSY SANTIAGO 4099
RUEHDG/AMEMBASSY SANTO DOMINGO 0627
RHEHNSC/NSC WASHDC
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCPDOG/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RUMIAAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 000428

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4431/MAC/WH/JLAO
NSC FOR RKING

E.O. 12958: DECL: 04/02/2019

TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)

SUBJECT: VENEZUELA: OIL PRODUCTION IN THE WEST: A MIXED BAG

REF: A. (A) CARACAS 369

[1](#)B. (B) CARACAS 288

[1](#)C. (C) CARACAS 239

[1](#)D. (D) CARACAS 136

[1](#)E. (E) CARACAS 106

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Petroleum AttachQ (PetAtt) conducted site visits in Zulia March 23-26. Companies corroborated reftel reporting and provided additional perspective on the complexity of problems encountered daily in the oil sector. Chevron's production is near capacity in the West; it is taking a pro-active approach to managing PDVSA's plans to consolidate numerous joint ventures on Lake Maracaibo. PDVSA has not responded to the SIMCO project's default notice; nor has it responded to Wood Group's request for contract closeout talks. PDVSA has issued incomplete payments to some service companies, but there seems to be no logical pattern to what it is paying. Pushed to an extreme, companies are taking different approaches to manage risk, reduce operating expenses, and position themselves for future legal recourse. PetAtt met with representatives from Tidewater, Superior Energy Services, Wood Group, Chevron, Baker Hughes, COAPetrol, the Maracaibo Chamber of Commerce, and several small Venezuelan service companies. END SUMMARY.

Chevron in the West --- The Good News

[1](#)2. (C) Chevron's General Manager in Western Venezuela, Ray Keeley (strictly protect throughout), confirmed that its PetroBoscan joint venture (JV) with PDVSA represents key swing production in Venezuela. As other PDVSA fields have not able to meet production quotas, PDVSA has ordered production at PetroBoscan to return to full capacity (110,000 b/d) (Note: PDVSA cut PetroBoscan production to 30,000 b/d in response to the December 2008 OPEC quota cuts, REF A & E). According to Keeley, prior to the formation of the JV,

Chevron's overhead costs for operation of the Boscan field were \$3.50/barrel. Overhead costs under the JV have bloomed to \$6/barrel. In addition, the JV's field production costs are roughly \$1/barrel. Thus, the current Boscan production cost is \$7/barrel and, according to Chevron, Boscan crude sells for approximately \$16 below WTI). Chevron is quietly trying to help PDVSA market Boscan and hopes it will agree to a supply contract with Chevron's refinery in Pascagoula, Mississippi. In the last couple of months, Pascagoula has taken two small tankers of Boscan and successfully processed the heavy crude, proving that the refinery could handle the dirty Venezuelan product. Inexplicably, according to Chevron, Halliburton in March 2009, decided not to renew its mud contract with PetroBoscan. While Chevron claims to have good relations with its PDVSA JV partners, it is struggling to get information on a \$28 million retirement benefits payment that appeared as a new charge in PetroBoscan's January operating expense report.

13. (C) Keeley provided an overview of PDVSA's plans for consolidation of the joint ventures in the West. He maintained that PetroBoscan will remain independent due to its size, but other operations, such as Chevron's Petroindependiente JV (PDVSA 74.8%, Chevron 25.5% - previously LL-652) on the Lake face consolidation. Chevron has a pro-active strategy to try to shape the consolidation. Rather than diluting its ownership share with other JVs on Lake Maracaibo, Chevron is making a business case to PDVSA to expand Petroindependiente and capture greater economies of scale by adding PDVSA-operated fields that are geographically

CARACAS 00000428 002 OF 004

contiguous to Petroindependiente rather than consolidate it with JVs that are not geographically contiguous. The other JVs that face consolidation include:

- Petrowarao: PDVSA 60%, Perenco 40%
- Lagopetrol: PDVSA 69%, Hocol 26.35%, Echopeck 3.1%, CdI 1.55%
- Petrosiven: PDVSA 75%, CNPC 25%

SIMCO and PDVSA Default --- The Bad News

14. (C) Dave Beacham (strictly protect throughout), Wood Group expat and General Manager of SIMCO, told PetAtt that Wood Group has decided to hand over SIMCO operations to PDVSA as the national oil company has not responded to SIMCO's letter of default (REF B & D). (NOTE: SIMCO operates 18 platforms, 150 wells, 2 treatment plans and its secondary recovery operations account for 50% of the production coming from Lake Maracaibo.) Beacham provided an interim transfer agreement to PDVSA, but has yet to receive a response. Wood Group hopes to have final contract closeout by June or July 2009. The British company operates six other companies in Venezuela and several of them will close operations as a result of this contract termination. Wood Group's Gas Turbine Group, for example, maintains 45 obsolete turbines in the SIMCO fields. It manufactures all the spare parts locally (the company that originally produced the turbines was sold several years ago and is currently owned by Siemens, which does not provide service/maintenance for that product line).

Payments to Service Companies

15. (C) Service companies continue to report sporadic, random, and insufficient payments from PDVSA for outstanding receivables (Reftels B, C, & D). According to Baker Oil Tools Executive Director, Mauricio Moreno Caijao (strictly protect throughout), Baker Hughes is owed \$150 million in Venezuela and last received a payment (\$3 million) from PDVSA in January/February (PDVSA owes them \$56 million, international oil companies and joint ventures owe \$40 million, and Baker Hughes has \$30 million in "accrued revenue, not invoiced" or payments for services to PDVSA

provided without a contract). Moreno explained that both IOCs and JVs are unable to pay as they have not been paid by PDVSA. According to Mikael Jakob (strictly protect throughout), Country Representative for Tidewater, the week of March 16, the U.S.-owned firm received a payment equivalent to one per cent of outstanding receivables from PDVSA. Superior Energy Service Executive Director Mac McVay (strictly protect throughout) told PetAtt that PDVSA paid Superior \$1 million (mix of Bolivars and USD) in December 2008 and owes the U.S. company \$20 million (\$9 million in USD and \$11 million in Bs). PDVSA told Superior to expect a \$10 million (in Bs) payment on March 19 but was only paid 850,000 Bs (roughly \$395,350) on March 21. Finally, COAPetrol's Bryan Stanley (strictly protect throughout) claimed that PDVSA owes his company 45 million Bs (roughly \$22 million). COAPetrol, which has 100,000 Bs in its bank accounts but has \$200 million in assets, had a 10 million Bs credit line from a local bank that has been suspended since October 2007. Without explanation, the bank partially re-instated the credit line (2 million Bs) the week of March 23, effectively enabling the company to operate an additional five weeks.

PDVSA Problems

16. (C) Service companies recounted numerous tales of problems

CARACAS 00000428 003 OF 004

within PDVSA that they claim contribute to the Venezuelan national oil company's on-going management and performance problems. Superior's McVay recounted an internal PDVSA problem that has complicated a pipe tender. Apparently, PDVSA E&P requested procurement of a certain size pipe (an obsolete standard product still in local use). PDVSA's contracts department decided it could not issue a tender for an obsolete product and unilaterally changed the technical specifications. The two PDVSA organizations have not been able to resolve the difference, resulting in a nine-month bottleneck in project execution and \$5 million in unpaid invoices.

17. (C) Beacham claimed that PDVSA's Caracas Corporate Legal Office in 2004 directed PDVSA West to pay SIMCO several million dollars in outstanding receivables. An attorney in PDVSA West recently told Beacham that the division is under no obligation to follow direction from corporate headquarters in these types of matters and that they would not pay the outstanding claim.

Strategies

18. (C) Faced with the challenges of maintaining operations in Western Venezuela, companies have become creative in managing risk, reducing operating expenses and ensuring legal recourse if their assets are expropriated. In March, Tidewater's U.S. parent organization sold the shares of the Venezuelan operation to a subsidiary in Barbados; assured by corporate lawyers that the Venezuelan-Barbadian BIT would provide greater legal protection for their investment (the BIT includes international arbitration). In addition, in order to put operational pressure on PDVSA, since the beginning of March Tidewater has stopped providing crew change boats and is forcing PDVSA to use its own resources to rotate crews off rigs in the Lake.

19. (C) Baker Hughes is reorganizing its distinct companies in Venezuela into a single operating entity and estimates its current client base accounts for 1.7 million b/d in production (NOTE: International observers put Venezuelan production around 2.2 million b/d). Moreno characterized Baker Hughes as having one of the largest sunk investments (plants) of any service company operating in Venezuela. The company also accepted Venezuelan arbitration in its most recent contracts with PDVSA. Baker Hughes expects the reorganization will allow it to reduce its workforce by ten

percent.

¶10. (C) The ENSCO 68 drilling rig under contract to Chevron, Repsol, and Teikoku for offshore drilling in Urdaneta was reflagged from the U.S. to Liberia. Tidewater is considering changing the flag on its two new service boats en route from the U.S. to Venezuela for this same project.

¶11. (C) Rather than bring in offshore dollars (and exchanging them in the swap market), Superior has offered CDs totaling \$500,000 (the legal limit in Venezuela) as collateral in the U.S. against a local loan in Bolivars (and is paying local interest rates approximating 25% on the loan).

Comment

¶12. (C) Field visits corroborate what we are hearing in Caracas -- PDVSA is making sporadic payments to service companies, has increased production from fields that it publically cut to achieve OPEC quota reductions, and is working on a consolidation of joint ventures. Businesses are

CARACAS 00000428 004 OF 004

using every trick in the book to reduce risk and legal exposure, cut costs, and maintain operations. However, Venezuela's oil resources continue to promise long-term gain if companies can survive what many hope is short-term pain. There is a significant gap, however, between operator Chevron's continued optimism and service company Wood Group's experience with the SIMCO project.

CAULFIELD